Medicaid

Statements

Notes for Discussion of Medicaid and California Issues
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Introduction

Once again this year, we are looking at a budget which contains big reductions in projected spending for Medicare and Medicaid. Changes in both these programs have major effects on Californians and their health care providers. But I want to concentrate particularly on the Medicaid changes, because I believe these are particularly damaging to California.

Because of the size of the Medi-Cal program and the number of Californians who rely on it, major changes in Medicaid always raise important issues for California public officials, whether at the Congressional, State, or county level.

But the issues we are looking at this year are particularly major for California, for a number of reasons:

The State is already dealing with the major effects of the welfare reform law. The effect is particularly large because of the cut-off of benefits to legal immigrants, ant the secondary effects on Medicaid, which are intensified because of the large number of legal immigrants in the State.
The Medicaid changes proposed by the Administration and supported by the Republican budget negotiators involve the imposition of a per capita cap. This raises particular problems for California because of its historical low rate of per capita spending.
The Administration and the Republican budget negotiators are also proposing large cute in Federal support for the Disproportionate-Share Hospitals (DSH) program--the program that helps support the costs of hospitals that serve large numbers of indigent and uncovered people. Since California has always targeted its DSH funds to real safety net institutions, these cuts will take away critically needed support for these hospitals.
All of these changes will mean an increased financial burden, particularly at the local level.
And the problem is exacerbated by the already crippling cost of services for undocumented persons, that falls disproportionately on our State and local institutions.

Main Message on Medicaid

First, we all have to understand that spending on Medicaid has slowed dramatically. The Medicaid baseline over the 5-year budget window is $86 billion less than we anticipated only last year.

That´s happening, in my view, for several reasons:

Most importantly, Federal legislation has closed the door on the opportunity for the DSH abuse that was occurring in some States. Places like New Hampshire and Louisiana wildly abused this program--they raided the Federal treasury and then didn´t even spend the money on health care for poor people.
States have gotten better at cost control strategies. I don´t need to tell you that Medicaid costs continue to be a major concern of States and localities, so there has been every reason to do everything to keep costs under control.

The point is, the reduction in Medicaid spending has already made a major contribution to a balanced budget. Further cuts--like those proposed by the President and sought by the Republican budget negotiators are going to entail policy changes in Medicaid that are bad--all are absolutely terrible for California.

Per Capita Cap

Any kind of cap on Federal matching of State Medicaid expenditures is necessarily going to hurt a State like California:

California is near the bottom of the list of States in its historic per capita spending. A per capita cap linked to this base would penalize us for the fact that we have worked so hard to control spending in the past. It would limit the Federal obligation to carry its fair share of costs in the future.

The per capita cap on Federal spending means that there is no real flexibility in the future to adjust to increased costs. Just look at AIDS, for example. Who would have projected the spread of this disease, and the kinds of costs that are required to provide drug therapies and other treatments. Medical care changes all the time. Yet a per capita cap simply says the Feds are not going to continue to carry their fair share of those costs.

The variations in historical spending among States makes the cap particularly unfair. Some States will have a cap that´s as much as three times higher per person. While this is patently unfair to us, the political fact is that it is very hard to remedy this. When you´re cutting the program anyway, and then try to take money away from one State to give to another--well, it becomes very difficult.

Further, the cap gets applied separately to four groups: aged, disabled, other adults, and kids. That means every State is going to find one group or another where their historical spending makes imposition of a cap unfair. So don´t kid yourselves that somehow we can find a way to adjust the cap that will make it fair to California. It won´t work.

So as Californians, we have to stress the unfairness of the cap. But as practical people--the only way to really protect ourselves is to knock this policy out of the budget. We have to carry the message that the savings from this (about $9 billion over 5 years) aren´t worth the political pain this is going to bring.

Just as an aside, let me note that the projected savings from the per capita cap grow dramatically just outside the 5-year budget window. That says to me that there are really some very large reductions in Federal support anticipated in the future. And once this policy is in place it will be almost impossible to get rid of it.

DSH (Disproportionate-Share Hospitals) Payments

Equally important to Californians is the problem with the reductions in DSH payments.

California received $1.1 billion in DSH payments, which are used to support 120 key safety net institutions--children´s hospitals, public hospitals, key teaching institutions, rural hospitals.

Our state has always used this money for what the DSH program was originally developed for: it targets it only on institutions that serve large numbers of poor and uninsured people.

We all know California has one of the highest rates of uninsured in the country. Our DSH payments are already below the national average per uninsured person.

But under this budget proposal, we would face the same--or even greater--proportionate cuts in DSH as other States that have not targeted their programs.

We would face a 43% reduction in Federal DSH payments in 2002 alone.

This seems to be a policy of continuing to reward States that ripped off the system, and penalizing those who cannot reduce their DSH effort without severely hurting critical institutions.

Again the Administration seems to have settled on too large a cut, then thrown up their hands when they find they can´t come up with a targeted cut that they can pass. This is irresponsible policy.

Immigrants

The denial of benefits for legal immigrants contained in the welfare bill is yet another bad policy that impacts California far beyond any other State. For legal immigrants in California, and for the county governments who are going to be faced with the costs of trying to make up for the loss of Federal support, this is absolutely preposterous.

California has about 40% of non-citizen SSI recipients. They face the loss of cash support. While we were able to keep the option for a State to keep Medicaid for this group, future legal immigrants would be denied Medicaid and cash assistance for 5 years.

The President has proposed maintaining Medicaid for children regardless of their legal immigrant status, and for disabled children. He has also proposed providing SSI and Medicaid for legal immigrants who become disabled after entry into the country. This is critical to California.

This still leaves many elderly people who will not get help. Denying Medicaid for them is going to mean a large financial burden for local governments.

Undocumented Aliens

As Californians, we also have a common interest in getting additional Federal assistance to pay for the costs of emergency care to undocumented persons.

Congressman Berman was successful in getting a provision in the immigration bill which authorized Federal funds for this purpose. We should be united in pressing the Administration and the budgeteers to provide Federal funds for this purpose.

The loss of DSH funds only compounds this problem for our local governments and safety net institutions.